

Message Text

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14

ACTION NEA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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R 181010Z OCT 75

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 3443

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY DOHA

AMEMBASSY TEHRAN

C O N F I D E N T I A L ABU DHABI 2080

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJ: OIL AND GAS NEGOTIATIONS IN ABU DHABI

1. SUMMARY. IPC-GROUP OIL AND GAS NEGOTIATING TEAMS HAVE JUST BEEN HERE FOR TWO DAYS OF DISCUSSION WITH MINISTER PETROLEUM OTAIBA AND ADNOC OFFICIALS. INDUSTRY REPS TOLD ME BEFORE DEPARTURE THAT LITTLE PROGRESS WAS MADE ON EITHER FRONT. END SUMMARY.

2. ON QUESTION FUTURE ARRANGEMENTS FOR CRUDE PRODUCTION, COMPANIES HAD IN SEPTEMBER PRESENTED TO OTAIBA IN LONDON OUTLINE OF PROPOSAL THAT WAS IN RESPONSE TO HIS REQUEST FOR IDEAS ON NEW ARRANGEMENTS THAT (AS OTAIBA PUTS IT) WOULD CREATE STABLE BASIS FOR GOVT/INDUSTRY PARTNERSHIP FOR NEXT 3-5 YEARS. COMPANIES RESPONDED, BUT WITH LITTLE ENTHUSIASM, FEELING IT IS WASTE OF TIME TO CONCLUDE ANY NEW LONG-TERM AGREEMENT HERE BEFORE BOTH SIDES KNOW OUTCOME OF NEGOTIATIONS IN SAUDI ARABIA. OTAIBA HAD BEEN INSISTING THAT DEAL COULD BE MADE INDEPENDENTLY HERE REGARDLESS
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WHAT HAPPENS IN SAUDI ARABIA (PROPOSITION COMPANIES ARE HIGHLY SKEP-

TICAL OF). NEGOTIATORS WERE THEREFORE SURPRISED TO FIND ON THIS GO-AROUND THAT OTAIBA HAD SWITCHED TO THEIR POINT OF VIEW, SAYING IT WAS IMPOSSIBLE TO GO ANY FURTHER HERE UNTIL BOTH SIDES SAW WHAT KIND OF DEAL WAS SHAPING UP IN SAUDI ARABIA. OTAIBA STILL HAS COMPANY "PROPOSALS" IN HIS POCKET (WE GATHER THEY ARE COUCHED IN RATHER GENERAL GERMS) BUT HAS NOT GIVEN NEGOTIATORS GOVERNMENT REACTION AS YET.

3. WHILE COMPANIES ARE RELIEVED THAT OTAIBA HAS COME DOWN FROM THE CLOUDS ON SUBJECT OF FUTURE ARRANGEMENTS, THEY ARE ALSO A LITTLE NERVOUS AS END OF YEAR APPROACHES AND WITH IT EXISTING AGREEMENT ON CRUDE LIFTINGS. COMPANIES CLAIM THAT UNDER PRESENT ARRANGEMENTS THEY HAVE "ALMOST NEGATIVE" CASH FLOW AND THAT THEY WILL NOT BE ABLE TO CONTINUE INVESTMENT PROGRAM IN 76 UNLESS THEY GET SOME RELIEF IN FORM OF INCREASED PER BARREL TAKE. LACKING CONFIDENCE THAT ABU DHABI IS PLACE TO DO SERIOUS NEGOTIATING UNTIL FUTURE GOVERNMENT/INDUSTRY RELATIONSHIPS HAVE BEEN ESTABLISHED ELSEWHERE, COMPANIES STRATEGY HERE SEEMS TO BE HOLDING ACTION, WHEREBY THEY ARE CONTENT TO HAVE PRESENT ARRANGEMENT CONTINUE PROVIDED IT GIVES THEM SOMEWHAT BETTER PROFIT MARGIN. ON OTHER HAND OTAIBA, WHILE OBJECTIVELY CONCEDING THAT COMPANIES SHOULD HAVE SOME RELIEF, SEES PRESENT PROFIT SQUEEZE ON THEM AS HEALTHY FORM OF PRESSURE TO INDUCE THEM TO COME FORWARD WITH "SENSIBLE" PROPOSALS FOR FUTURE LONG-TERM ARRANGEMENTS, ALTHOUGH HE IS NOW APPARENTLY READY TO ADMIT THAT GOVERNMENT ITSELF DOES NOT AT THIS TIME HAVE CLEAR IDEA OF WHAT IT WANTS. IMMEDIATELY AFTER INDUSTRY TEAM LEFT, OTAIBA WENT TO SAUDI ARABIA, ONE PURPOSE OF TRIP REPORTEDLY BEING TO FIND OUT WHERE NEGOTIATIONS WITH ARAMCO STAND.

4. ON GAS PROJECT, GAP REMAINS BETWEEN TWO SIDES ON FINANCING ARRANGEMENTS AND NO APPARENT PROGRESS WAS MADE ON THIS OCCASION IN NARROWING IT. REDUCED TO ESSENTIALS, IPC GROUP IS NOT WILLING THEMSELVES TO GUARANTEE BORROWED PORTION OF THEIR 40 PERCENT SHARE OF HALF BILLION DOLLAR INVESTMENT THAT PROJECT ENTAILS. THEY ARE PROPOSING INSTEAD THAT TWO SIDES DECIDE ON PROJECT THEY WANT, FIRM UP JOINT VENTURE, AND THEN LET THAT CORPORATE ENTITY RAISE MONEY ON ITS OWN NAME. ADNOC MANAGING DIRECTOR HAMRA-KROUHA REJECTS THIS APPROACH, TAKING POSITION THAT UNDER THIS SCHEME IT WOULD BE GOVERNMENT THAT ENDED UP ASSUMING GUARANTEES FOR ENTIRE BORROWED CAPITAL, AND THAT THIS WOULD MAKE MOCKERY OF GOVERNMENT/INDUSTRY CONFIDENTIAL

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"PARTNERSHIP." ADNOC THEREFORE INSISTING THAT COMPANIES SHOULD COMMIT THEMSELVES FINANCIALLY FOR THEIR FULL SHARE OF PROJECT AB INITIO. COMPANY REPS SAID HAMRA-KROUHA ENDED MEETING BY SAYING THERE OBVIOUSLY DEEP PHILOSOPHICAL DIFFERENCE BETWEEN TWO SIDES AND GOVERNMENT HAD DECIDED TO IMPLEMENT PROJECT ON SOLE-RISK BASIS. INDUSTRY GAS TEAM DEPARTED UNCERTAIN WHETHER THIS IS END OF THE ROAD FOR THEM, OR MERELY NEGOTIATING TACTIC.
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